City of Detroit

CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director ICJ.

DATE: July 25, 2007

RE: Phase II-Homestead Neighborhood Enterprise Zone (NEZ) Proposed Tax Break under PA 147 of 1992 as amended in 2005 **(Recommend Approval)**

Before your Honorable Body is a request from the Planning and Development Department (PDD) and the Finance Assessor's Division for authorization of the establishment of 26 homestead NEZ areas, which constitutes phase II of the program.

The Fiscal Analysis Division received information on the proposed areas late yesterday. However, we had a previous discussion on the proposal with the Assessor's Division approximately two weeks ago. Council should note that for instance, we would have liked to receive more sales data in each of the proposed areas to support Assessor's calculation of the average sales prices presented to us. More specifically, we do not know the number of multiple sales of a particular property in the proposed areas. As a result, the sales data that was presented to us could be inflated.

Consequently, our review is limited. However, it appears the Assessor's Division is using the same criteria to create the 26 areas as was used to create the first 25 areas that constituted phase I of the homestead NEZ program. Included in the criteria to select the 26 areas is the average amount of taxes, assessments, and taxable values, the owner-tenancy ratio, the number of for sale properties, reduction of sales prices, and the number of foreclosures. So, at least the methodology appears to be consistent.

The primary goal of the Administration is to diminish the "sticker shock" homeowners received from the increase in property taxes when a home is purchased after 1994 per Proposal A legislation to, in turn, "provide tax obligation uniformity within an area and help stabilize the economic fabric in an established area" (per Assessor's reports to PDD on each proposed area). Taxes are known to increase 2 or 3 times the taxes prior to the purchase. However, the homestead NEZ program focuses on homeowners that purchased their homes after December 31, 1997.

We would like to remind the Council that the "tax break" allowed a homeowner in a homestead NEZ area is one-half of the City's operating mills (from 19.95200 to 9.97600, per 2007 rate) **and** one-half of Wayne County's operating mills (from 5.64830 to 2.82415, per 2007 rate), **on the homestead building only. The land is still taxed a full mills.** The tax break could be up to 15 years.

We would like to make the following points based on our limited review for the sake of today's public hearing:

1. Phase I, last year at this time, Assessor's projected 10,838 Homestead sales had taken place since 1997 and based on the average taxable value, the first-year loss to the city would be close to $6.7 million. The certification process took place and only 2,000 homesteaders applied, roughly 20% of the original total, which would be only a property tax loss of $1.34 million.

2. With the actual number of certificates that have been filed with the state, the Fiscal Division projects that over 15 years and with subsequent sales during those 15 years, the city will lose a total of $31.3 million or an average of $2.1 million annually.

3. Assessor's still needs to coordinate with Treasury to determine the actual amount of tax loss from the Phase I program.

4. The proposed Phase II which is before you projects that 18,066 homesteads are eligible for a loss to the city, according to the Assessor, of $5.3 million in the first year. This amounts to an average tax break of 20 %. Based on the outcome of Phase I's application process, and applying a similar percentage, only 3,000 homeowners may apply for the credit with the loss to the city a little over $1 million in the first year.

5. Similarly in phase II, the Fiscal Division projects that over 15 years and with subsequent sales during those 15 years, the city will lose a total of $21.8 million or an average of $1.457 million annually. So, our projection seems to mirror the first year lost if only 20% apply for the credit.

6. Of course all those who didn't apply in the first year could apply at any other point in time, as there is no sunset for application. The only expiration is once the certificate is awarded and that is 15 years, which would increase the loss.

7. So, as a final note, if all were to apply in both phases, the ultimate cost to the city would be $265 million, or 5 times the numbers noted above. But it

is difficult to determine at this time over what period that amount would be lost. Hopefully, increases in home value over time would diminish that lost. The unknown, however, is when the City of Detroit will spin out of its current economic doldrums, which would hopefully decrease the number of foreclosures, slow sales and sale price reductions.

It is our hope as well that the tax break given to homeowners in the proposed 26 homestead NEZ areas would help to stabilize these areas. Therefore, we recommend Council's approval of the establishment of the phase II, 26 proposed homestead NEZ areas.

The lingering question, however, is "is the tax break given to the homeowners in the homestead NEZ areas enough to stabilize the neighborhood?"

cc: Council Divisions
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